



WEEKLY ECONOMIC DIGEST

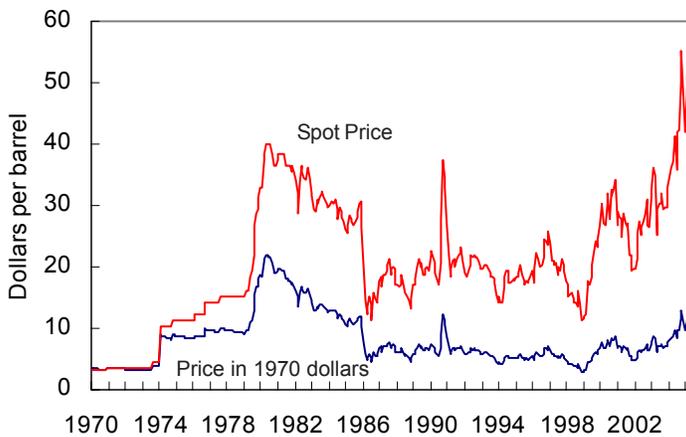


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI)

March 1, 2005

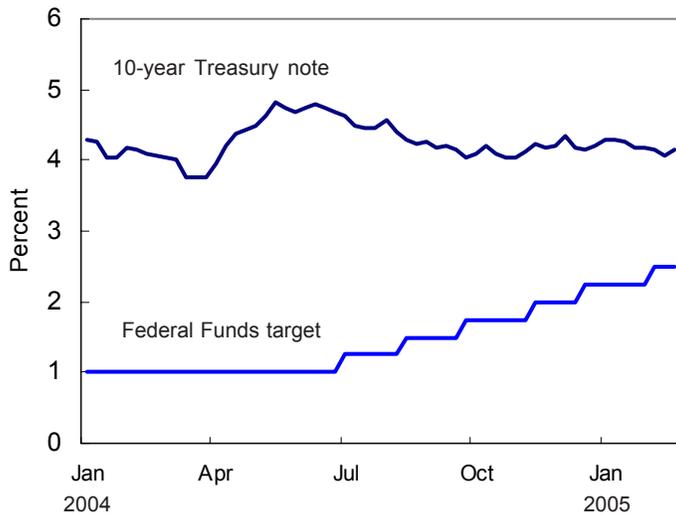
Solid Growth in GDP with Moderate Inflation: The Calm Before the Storm?

Spot Price for West Texas Intermediate Crude Petroleum: Jan 1970 to Feb 2005



Sources: JEC calculations using data from the Wall Street Journal and the Bureau of Labor Statistics, U.S. Department of Labor.

Interest Rates



Source: Board of Governors, Federal Reserve System.

- **The economy grew solidly with only moderate inflation in the fourth quarter.** Real (inflation-adjusted) gross domestic product (GDP) rose at an annual rate of 3.8 percent in the fourth quarter of 2004, according to revised estimates by the Department of Commerce. That growth rate is above the 3¼ percent rate many analysts believe is the economy's trend rate of growth. The core GDP price index, which removes the effects of volatile food and energy prices, grew at a moderate 1.9 percent annual rate in the fourth quarter.
- **Oil prices rise above \$50 per barrel again.** Oil prices have moved higher over the past two months, with the price of West Texas Intermediate crude rising above \$50 per barrel last week. Increases of that magnitude raise costs for petroleum-intensive producers and feed into consumer energy costs. However, they may not be as disruptive to general economic activity as were the price spikes in the 1970s, which, when measured in constant dollars, were larger and more abrupt (top chart). Moreover, thanks in part to efficiency measures taken after the earlier supply shocks, energy costs are not so large a share of production costs as they once were. Even so, continued increases in oil prices could put upward pressure on underlying inflation and slow the economy.
- **Long-term interest rates have not risen yet.** Since the middle of last year, the Federal Reserve has been raising short-term interest rates at what it has called a measured pace. However, the long-term rates that actually affect economic activity have drifted lower (bottom chart). Fed Chairman Greenspan has identified a sharp rise in foreign purchases of U.S. government bonds as one reason for the relatively low long-term interest rates over the past nine months, but he said it is difficult to explain why foreign demand for U.S. debt has swelled or to predict how long it might last. A sudden withdrawal of foreign demand for U.S. bonds could lead to a sharp rise in long-term rates that would pose a risk to the economy.

The Economy at a Glance	Jan	Dec	Nov	Oct	2004 Qrt 4	2004 Qrt 3	2004 Qrt 2	2004 Qrt 1	2004	2003
Economic Activity										
Real GDP (% growth)	—	—	—	—	3.8	4.0	3.3	4.5	4.4	3.0
Industrial Production (% growth)	0.0	8.7	1.2	10.0	4.0	2.7	4.3	5.6	4.1	0.0
Capacity Utilization (level, %)	79.0	79.1	78.6	78.5	78.7	78.2	77.9	77.3	78.0	75.5
Civilian Unemployment Rate (level, %)*	5.2	5.4	5.4	5.5	5.4	5.5	5.6	5.6	5.5	6.0
Housing Starts (thousands)	2159	2063	1805	2065	1978	1969	1920	1943	1952	1853
Real Disposable Personal Income (% growth)	5.6 [#]	9.5 [#]	2.4	3.7	3.4 [#]	2.9	2.8	2.4	3.7 [#]	2.3
Retail Sales (% growth)	-3.7	14.4	-0.5	13.3	9.9	5.7	6.4	10.9	7.6	5.3
Personal Saving Rate (level, %)	1.0	0.3 [#]	0.5	0.5	0.5 [#]	0.7	1.3	1.0	0.9 [#]	1.4
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	1.2	0.0	3.7	7.4	3.6	1.6	4.4	3.9	2.7	2.3
Core CPI-U Inflation (% growth)	2.4	2.4	2.4	2.4	2.3	1.8	2.6	1.9	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	2.8	3.6	4.1	4.5	3.7	4.1
Output per Hour (% growth)*	—	—	—	—	0.8	1.8	3.9	3.7	4.1	4.4
Financial Markets										
T-bill Rate, 3-month (level, %)	2.33	2.19	2.07	1.76	2.01	1.49	1.08	0.92	1.37	1.01
T-note Rate, 10-years (level, %)	4.22	4.23	4.19	4.10	4.17	4.30	4.60	4.02	4.27	4.01
Federal Funds Rate (level, %)	2.28	2.16	1.93	1.76	1.95	1.43	1.01	1.00	1.35	1.13
Dow Jones Industrial Avg (index level)	10540	10673	10412	10002	10362	10130	10289	10488	10317	8994

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December.

Upcoming Economic Releases:

- **Value of Construction Put in Place: January 2005** [Release: Tuesday, March 1]
- **Productivity and Costs: Revised Estimates for Fourth Quarter 2004** [Release: Thursday, March 3]
- **The Employment Situation: February 2005** [Release: Friday, March 4]
- **Consumer Credit, January 2005** [Release: Monday, March 7]